Supply and Demand

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1. How do you think the free rider problem throws off the determinants of supply and demand?

Ans. Individual utilizing public goods without paying their market share are known as free riders. The concept of free rider problems is defined as the market failure that occurs when individuals don't pay for public goods and enjoy its benefits. These products cannot exclude other people because there is no rivalry and it causes underproduction of goods. People are asked to contribute to the construction of public goods like bridge or parks, but free riders enjoy the benefits of these products. Government provide public goods, and the problems of free riding are the reasons that the private firms do not offer them because they cannot exclude anyone from its benefits.

The features of private goods are that private companies have a proper mechanism to exclude free riders from its benefits. First, they don't provide public goods, and if they do, they will make lists of the people who want to pay for the cost so that those specific people get all the benefits (Pearce, 2014). When the government is providing public goods, the exclusion is ambiguous because they cannot exclude free riders in public to enjoy its benefits. Suppose if the government wants to charge people for the provision of clean air and the ambient environment. This mechanism would fail because they cannot exclude people from enjoying its benefits known as free rider problem. The characteristics of the public are that there is no rivalry and no excludability. Non- rivalry means that the available amount of public goods for other people does not decrease when its consumed by the public. Non- excludability implies that there is no possible condition to exclude other people from enjoying the benefits of public goods. This is how free rider problem throws off determinants of supply and demand because of the characteristics of public goods. These goods in free markets are often underprovided because of non- rivalry and non-excludability.

1. Consider the Nintendo Wii and read the attached article (Wii.pdf in the bottom left). Was the severe shortage for over two years a marketing ploy called intentional scarcity in which a company purposely keeps its hot product in short supply to build buzz, or was it merely bad planning on Nintendo's part? What did this mean for individuals and households trying to maximize utility? What were the implications for Nintendo as a firm seeking to maximize profit?

Ans. Firms in a competitive market strive to maintain their leading position when the new firms enter into the market or same firms with an innovative idea. By making new technology in the market, the firms gain a superior advantage over other firms. Samsung chooses to sell its product at high prices because they had high tech advantage over other firms which were having less powerful technology and low rates. They did not consider to enhance the technology by investing in their Research and development before the seventh generation. There are several competitive advantages which were adopted by Nintendo which cause it success and failure in the market.

According to the study on customers perception which analyzed that how Nintendo lost its leading position in the gaming industry was due to strategies adopted for marketing their product (Le, 2018). The two main competitors in of Nintendo is Microsoft and sony. The study analyzed past marketing strategies of other companies in competition with Nintendo. Customers views of marketing strategies adopted by Nintendo were less influential and accurate as compared to Sony PlayStation. Nintendo took the Blue ocean marketing strategy which means introducing a product having very less competition or no competition and doing business with no pricing pressure. Nintendo was competing in red ocean market where they were competing with Microsoft and Sony. Instead of gaining the advantage in the red ocean market they adopted the blue ocean marketing strategy. When the firm operate with these startegies, it causes shortage because other firms won by their marketing strategy and demand for Wii consoles dropped.

Consumers and household maximize their utility by the usefulness of the product. In economics, the utility maximization is the term used for maximum satisfaction obtain from a product with least amount of money spent on that product. Nintendo first price dropped in the year 2009 in united states from 249 dollars to 199 dollars. In Europe, the prices fell from 249 pounds to 199 pounds. It set a regional record for a month in the year 2009, but the sales dropped due to the price cut. The cut in prices are the implications for profit maximization for Wii consoles.

**References**

Le, H. (2018). Nintendo vs. Its Competitors in Marketing Efforts: From the Point of View of Customers.

Pearce, D. W. (2014). *Blueprint 4: capturing global environmental value*. Routledge.